

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6112**

**BILL NUMBER:** HB 1043

**NOTE PREPARED:** Dec 13, 2012

**BILL AMENDED:**

**SUBJECT:** Sales Tax Exemption for Farm Drainage Property.

**FIRST AUTHOR:** Rep. Gutwein

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that a component of a farm drainage system is exempt from Sales Tax if the person acquiring the component is engaged in the business of agriculture. It also provides that equipment used to install, repair, or maintain a farm drainage system is exempt from Sales Tax if the person acquiring the component is engaged in the business of agriculture.

**Effective Date:** July 1, 2013.

**Explanation of State Expenditures:** This bill will result in an increase in administrative costs for the Department of State Revenue (DOR) by requiring the DOR to revise Sales Tax forms as well as update computer software to incorporate the exemption. It is estimated that the DOR will be able to implement this provision with its existing level of resources.

**Explanation of State Revenues:** *Summary* - This bill could decrease Sales Tax revenue by \$12.3 M to \$15.4 M in FY 2014 and by \$12.6 M to \$15.8 M in FY 2015. The revenue loss could be higher to the extent that equipment purchases aren't captured by this estimate. The impact on revenue will ultimately depend on the volume of sales of farm drainage system components and equipment. Prices of farm drainage tiles and equipment can vary greatly and depend on a number of factors.

The table below shows the low and high estimates for Sales Tax revenue loss for FY 2014 and FY 2015. Sales Tax revenue is deposited as follows: 99.848% in the state General Fund, 0.123% in the Commuter Rail Service Fund (CRSF), and 0.029% in the Industrial Rail Service Fund (IRSF).

Revenue Impact		Low Estimate (in millions)		High Estimate (in millions)	
Fund	Distribution	FY 2014	FY 2015	FY 2014	FY 2015
General Fund	99.848%	-\$12.3292	-\$12.6053	-\$15.4115	-\$15.7567
CRSF	0.123%	-0.0152	-0.0155	-0.0190	-0.0194
IRSF	0.029%	-0.0036	-0.0037	-0.0045	-0.0046
<b>Total</b>	<b>100.000%</b>	<b>-\$12.3480</b>	<b>-\$12.6245</b>	<b>-\$15.4350</b>	<b>-\$15.7807</b>

**Background Information** - Revenue loss estimates are based on the number of farmland acres in the state. Currently about 3% (441,000 acres) of total farmland in Indiana is drained per year. The lower limit estimate is based on an estimated cost of \$400 per acre. The total cost of drainage supplies and equipment for 441,000 acres is \$176.4 M. The upper limit estimate assumes that 1,000 feet of four-inch plastic drain tile will be installed per acre. At \$0.50 per foot, the total cost to drain 441,000 acres of farmland is approximately \$220.5 M.

Drainage tile costs vary depending on the size of pipes needed for a particular project. The cost of a four-inch diameter pipe, for example, could range from \$0.35 to \$2.00 per foot. The largest sized pipes may cost up to \$30 per foot. The useful life of a properly maintained farm drainage system is about 100 years.

The above estimates do not include the cost of installation equipment and software. Typically, farmers install drainage tile using equipment they have previously purchased for other purposes. The use of this equipment often requires software upgrades to improve accuracy, which cost between \$2,000 and \$6,000. Some software systems may cost as much as \$10,000 to \$40,000. Depending on the software and equipment needs for individual installation projects, the Sales Tax revenue loss could be greater.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Local revenues will be impacted to the extent that a local unit receives funds from the CRSF or the IRSF.

**State Agencies Affected:** DOR.

**Local Agencies Affected:**

**Information Sources:** Clark Farm Drainage Inc., 765-593-9037; *Farm Industry News*, Joan Olson, 1999; Illinois AgriNews Publications, “Ag engineer: Drop in cost of tile may spur more drainage”; Ron Schlatter, Schlatter’s Inc., 219-567-9158; USDA National Agricultural Statistics Service, 2011 State Agricultural Overview.

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